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# STATE OF INDIANA

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DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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## MEMORANDUM

**DATE:** October 2006

**TO:** County Assessors

**FROM:** Barry Wood  
Director, Assessment Division

**RE:** 2006 Ratio Study Issues

50 IAC 21, the annual adjustment rule, requires all county assessors to conduct and submit to the DLGF a county wide ratio study after completion of annual adjustments. To date, the DLGF has received 44 Ratio Studies from throughout the state, with eight receiving approval. The Assessment Division's goal is to review and reply to the county's ratio study submission within two (2) weeks. The reply will either be in the form of an approval of the ratio study or a request for further information needed to review the study.

The following are suggestions and findings that we have found in reviewing the ratio studies:

1. A consolidated spreadsheet will help in our initial analysis and facilitate our review. Please do not submit a separate spreadsheet for each class of property or each township. Our preferred format would be one spreadsheet file with the first tab being a summary worksheet followed by separate tabs for each township. A township tab should show all property classes, or a separate tab for townships grouped together for a specific class. If you have already set-up your information to have tabs by class that would be acceptable too; please minimize the number of files and include a summary spreadsheet.
2. Please include the 2005 pay 2006 gross AV for land and improvements as well as the 2006 pay 2007 AV for land and improvements for all parcels used in the study.
3. In our review, we are comparing the number of sales used in the ratio study with a file analysis of the number of sales that could possibly be used from your data submissions to LSA and our Data Analysis Section. The biggest problem, to date, is the total number of sales significantly exceeding the number of sales being used in the ratio study. Please be sure to remove any duplicate sales (not re-sales, but multiple occurrences with the same date and price). While we

certainly do not expect all sales to be used (i.e. exempt sales, etc.), there are many sales that are not being used. “Trimming,” or eliminating sales without a valid reason, is not an acceptable practice. Unless there is specific written notification and approval given for following the IAAO Standard on Ratio Studies on locating extreme outliers (see Section 6.6), all valid sales should be considered. For those classes of property where there are few sales, the IAAO Standard on Ratio Studies gives specific remedies for inadequate sample sizes (see Section 8.4).

4. We understand that certain software packages automatically invalidate or exclude multiple parcel sales; hence, many of those sales are not being included in the ratio study. Any valid sale where an assessment can be compared to the selling price should be considered. Be sure to include multiple parcel sales by summing the assessed values.
5. Land sales with subsequent improvements should also be included by imputing the assessment as vacant.
6. It is also appropriate to expand the range of sale dates to include 2006 and 2003 and earlier years with appropriate time adjustments. If sales are time adjusted, please include the actual sale price in addition to the time adjusted price.
7. Note that 50 IAC 14-3-3 specifically excluded the practice of including performance audits in the trending process, therefore, any inclusion of appraisals must be documented and the IAAO procedure outlined in the IAAO Standard (Section 9.6) must be followed.
8. As of September 30, 2006, the following 10 counties have not submitted sales data to LSA and DLGF for both 2004 and 2005:
  - Bartholomew
  - Boone
  - Brown
  - Floyd
  - Jennings
  - Johnson
  - Knox
  - Scott
  - Shelby
  - Vigo

We will not be able to proceed with the review and analysis of the ratio study for these counties until they are compliant with both years of sales data.

9. For counties that have submitted sales data, please note that non-compliant data may delay the processing of your annual adjustment ratio study. Counties are encouraged to correct or otherwise address non-compliant issues.
10. The sales disclosure file submitted as part of the required data submission to LSA and DLGF from a county should contain the data as it was filed on the original sales disclosure. Therefore, any updated sales data submissions in the future that had changes in sales data caused by re-validation of the sales during the annual adjustment process should not include the changed data. Please contact the Data Analysis Section at [data@dlgf.in.gov](mailto:data@dlgf.in.gov) for compliance issues and questions.
11. Please be sure to use the DLGF township and school district numbers, and not the county's numbers. These are available at [http://www.in.gov/dlgf/pdfs/List\\_of\\_townships.pdf](http://www.in.gov/dlgf/pdfs/List_of_townships.pdf) and <http://www.in.gov/dlgf/pdfs/2002School.pdf>.

12. If necessary, land values could and should be modified (see 50 IAC 21-4-2) before application of annual adjustment factors. For example, we are seeing cases where unimproved classes are significantly below the median or contrary to the sales disclosure file data. The corresponding improved class is also showing a low median but still within the “allowable” range. Adjusting the land value component will most likely bring the values into line.
13. Unimproved land purchased for homesites should be valued at market value unless IC 6-1.1-4-12 “developers” statute applies. The assessments for these parcels may not reach market value based on the method suggested in the guideline (Chapter 2, page 69) unless the assessment is based on an excess acre rate based solely on sales of this type of property and **not** on traditional ratios (e.g. 15 - 20%). An alternative for reaching market value includes creating an undeveloped homesite rate and applying an undeveloped influence factor to a “homesite” acre; another option is to use a higher than traditional excess rate developed from only building lot sales, and then apply an influence factor to the parcels with dwellings where the excess acreage is inadequate in size or shape to allow for dividing the parcel and developing or selling an additional building lot.
14. The DLGF will be calculating the price related differential although this is not called for in submission under the equalization standard (50 IAC 14-8-1). We will expect the assessing officials to have implemented 50 IAC 21-11-1 (b).
15. The twenty-five (25) parcel limit is not in effect for the annual adjustment process. Any valid sales in townships with fewer than twenty-five (25) parcels in a particular class should be considered with a grouping of similarly assessed properties in another township or class.
16. Although many counties have contracted out the annual adjustment/ratio study process to a vendor, the county is ultimately responsible for the submission of and approval of the ratio study by the DLGF.
17. We would recommend either sending out the “Annual Adjustment” Fact Sheet we sent out in June (and posted on our website at <http://www.in.gov/dlgf/news/annualFS.html>) with your Notices of Assessment, or making it readily available to help answer general questions from taxpayers.

Please contact Barry Wood or Lori Harmon at (317) 232-3773 or e-mail [bwood@dlgf.in.gov](mailto:bwood@dlgf.in.gov) or [lharmon@dlgf.in.gov](mailto:lharmon@dlgf.in.gov) if there are questions regarding this memorandum.